

# **NAVAL POSTGRADUATE SCHOOL**

## **Monterey, California**



## **THESIS**

**AN EVALUATION OF BOTSWANA'S ECONOMIC  
GROWTH**

by

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June 2000

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**ABSTRACT (maximum 200 words)**

This thesis examines the critical factors that contributed to Botswana's economy moving from being among the poorest in the world to be among the fastest growing economies in the world. The study was conducted by comparing Botswana's policies to those of other African countries. Unlike most former British African colonies, when Botswana became independent in 1966, it had no infrastructure in place. African countries, save for Botswana, have rarely had sustained economic growth during their independence era. The methodology used in this thesis consisted of an analytical assessment of literature and critical synthesis of a model of economic growth relevant to Botswana. Throughout the research the focus is on how Botswana has differed from other African countries in approaching its economic development. The study found that because of political stability, sound management of the country's resources, timely changes to economic policies and appreciation of foreign aid Botswana was able to perform better than most African countries.

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**AN EVALUATION OF BOTSWANA'S ECONOMIC GROWTH**

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Submitted in partial fulfillment of the  
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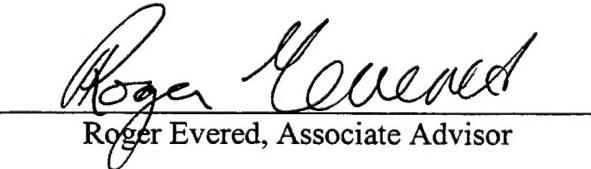
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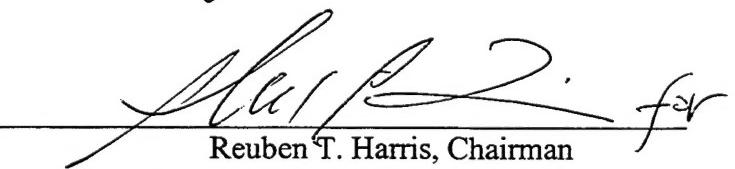
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This thesis examines the critical factors that contributed to Botswana's economy moving from being among the poorest in the world to be among the fastest growing economies in the world. The study was conducted by comparing Botswana's policies to those of other African countries. Unlike most former British African colonies, when Botswana became independent in 1966, it had no infrastructure in place. African countries, save for Botswana, have rarely had sustained economic growth during their independence era. The methodology used in this thesis consisted of an analytical assessment of literature and critical synthesis of a model of economic growth relevant to Botswana. Throughout the research the focus is on how Botswana has differed from other African countries in approaching its economic development. The study found that because of political stability, sound management of the country's resources, timely changes to economic policies and appreciation of foreign aid Botswana was able to perform better than most African countries.

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## I. INTRODUCTION

Botswana's economic progress since its 1966 independence has been one of the success stories of the African continent. At independence the country was one of the 20 poorest countries in the world.<sup>1</sup> The economy had no infrastructure; only 54 miles of tarred roads, no real communications or power networks and an unreliable water supply. The per capita income was about P60 per year (then equivalent to about US \$80).<sup>2</sup> The new government of the Botswana Democratic Party (BDP) led by Seretse Khama was assuming control from the British who during their colonial rule had done very little in terms of economic development of the country. The new government took over at a time when there were no signs that the country would be able to sustain itself economically in the near future. There were no known significant economic natural resources that could be depended on for the economic sustenance of the country. Economic surveys had been carried out to assess development prospects and each of them concluded that chances of

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<sup>1</sup> <http://www.gov.bw/business/index.html>

<sup>2</sup> Colclough and McCarthy, *The Political Economy of Botswana*, (New York: Oxford University Press, 1980) p.54.

achieving economic development from the then available resources were negligible. And the recommendation these surveys made was that the government would have to be given financial aid to meet both recurrent and development budgets. The only apparent source of economic development was the cattle industry, even though when the country became independent it had just suffered a severe drought, which struck both the arable and the cattle industry severely. Not only was Botswana's economic status gloomy at independence, but also the political atmosphere in southern Africa was not at all conducive for the newborn country.

Despite this gloomy economic situation at independence, within the first decade of independence Botswana's economy grew in bounds with an annual economic growth of 15%, minerals were discovered, infrastructure expanded, new cities had been built, industries were started and the government revenue increased ten fold from independence. Since then, except for 1992/93, the economy has been growing, and today the country's per capita income is \$3,000.<sup>3</sup> In 1998 the country was ranked as the third most competitive among the African nations by the World Economic

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[http://www.gov.bw/government/minisry\\_of\\_finance\\_and\\_development\\_planning.html](http://www.gov.bw/government/minisry_of_finance_and_development_planning.html)

Forum and Harvard University and cited by the 1998 "Investment in African Mining" as a low investment risk country for mining. Today Botswana enjoys respect and well-merited confidence for its investment potential. "The New York Times" reported in June 1998, that a study released by the World Bank identified Botswana as having enjoyed the greatest economic growth of any country in the world from 1966 to 1997 with an annual growth rate of 9.2%.

This thesis identifies some key factors that transformed Botswana from being the poorest country at independence to being one of the best economic performers of the world, being an African country within a continent where economic progress has proved futile for so many other nations. The thesis will look into the challenges that the economy faced and the way that the challenges were overcome. The thesis will also look briefly at some of the socioeconomic areas that the government has been found lagging.

#### **A. RESEARCH SCOPE**

This thesis will address Botswana's economic performance from the period just before independence to 2000 and will compare the approaches and the experiences of Botswana to other African countries.

## **B. METHODOLOGY**

The methodology used in this thesis will consist of an analytical assessment of literature and critical synthesis of a model of economic growth relevant to Botswana. I will also research books, magazine articles, Internet articles, newspaper articles and other library information sources to determine the critical ways Botswana has differed from other African countries in approaching its economic development.

## **C. ORGANIZATION OF STUDY**

Most African countries at the time of independence had a basic infrastructure in place. This however was not the case with Botswana. The colonial government had done very little to explore the economic potential of Botswana during their rule from 1885 to 1966. Thus chapter II traces the history of Botswana under the British rule as well as the economy of Botswana at independence.

Chapters III, IV, and V review the economic performance of Botswana from 1966 to the 1990s. They look at the driving forces behind Botswana's economic success. Chapter V also reviews how the economy will be managed in the future and also assesses the National Development Plan

8. Chapter VI presents a summary and conclusion of the study.

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## **II. THE HISTORY, GEOGRAPHY AND POPULATION OF BOTSWANA**

### **A. AN OVERVIEW OF BOTSWANA'S POLITICAL HISTORY**

The term, Batswana, is inclusively used to denote all citizens of Botswana; it also refers to the country's major ethnic group (the Tswana in South Africa), which migrated into the area from South Africa during the Zulu wars of the early 1800s. Prior to European contact, the Batswana lived as herders and arable farmers under tribal rule. The Batswana are in fact many tribes all of whom speak the same language, Tswana, although English is the official language. These tribes are mercifully free of the traditional tribal animosities that so frequently rend other African nations, for example the fierce rivalry between the religious groups in Nigeria, and the Shona and the Ndebele tribes in Zimbabwe. In her book, "Botswana: An African Growth Economy", Penelope Hartland-Thunberg said about the people of Botswana:

They are a gentle, hospitable people, with much dignity and typically evoke a warm reaction in foreigners.

The country Botswana covers an area of 582000 square kilometers, about the size of France. It has a population of about 1.5 million with an annual population growth rate

of 1.1%.<sup>4</sup> Botswana is in south central Africa, totally landlocked, bounded by Namibia, Zambia, Zimbabwe, and South Africa. Most of the country is nearly desert with the west covered by the Kalahari sands and the east being more conducive to comfortable habitation because of higher rainfalls and richer soil.

The Tswana form one of the three major divisions of the Sotho group of the Bantu people and are thought to have come to South Africa at the time of the Bantu migrations from the north several centuries ago.<sup>5</sup> Most of the tribes that form the great majority of the population of Botswana come from this common stock, although they arrived at different times in the eighteenth and nineteenth centuries having moved north and west from their original areas of settlement in the Transvaal in South Africa. Unlike the tradition of most African tribes, the Tswana have, from the time of their earliest settlement, lived in large villages-in part for reasons of defense and also because dependable sources of surface water in the area were limited. Each capital village, being the home of the chief, was the center of the political and social life of the tribe and

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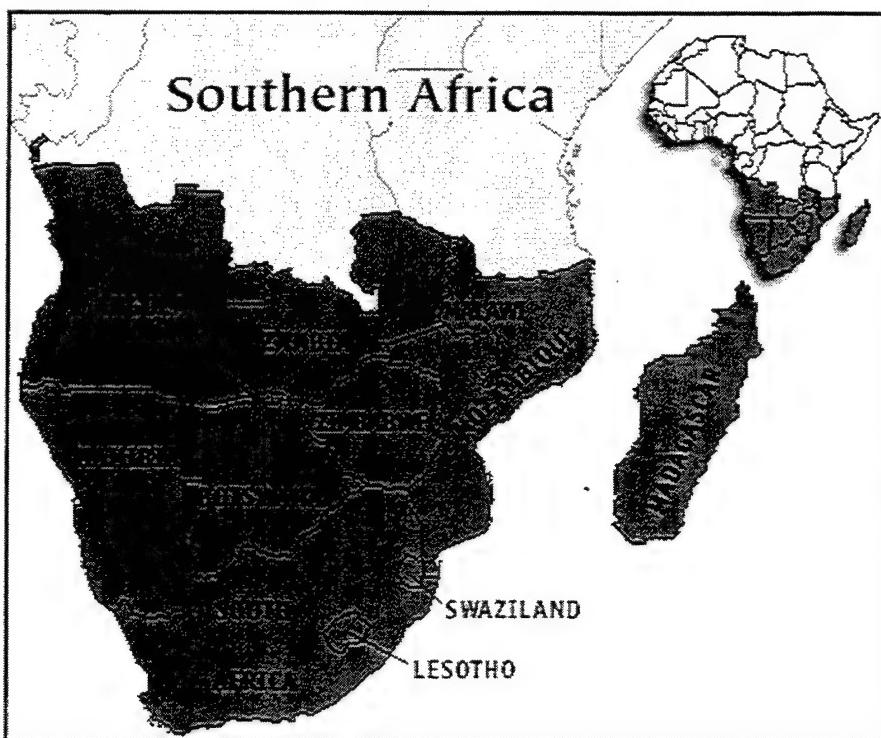
<sup>4</sup> [http://www.carnell.com/population/population\\_growth\\_africa.html](http://www.carnell.com/population/population_growth_africa.html)

<sup>5</sup> Colcough and McCarthy, *The Political Economy of Botswana*, 1980, p.7.

was the place where all important gatherings and meetings were held.

In 1885 Botswana became a British Protectorate, and the borders of present-day Botswana were thus defined and the area then became known as Bechuanaland. The area to the south of the Molopo river, part of the present day northern Cape region, became a British colony which is today Botswana.

Figure 1: Map of Southern Africa



Source: [www.edcintl.cr.usgs.gov/adds/c1/r3/r3.html](http://www.edcintl.cr.usgs.gov/adds/c1/r3/r3.html)

The area was to remain largely independent, yet under the protection of the Boers in the south and the Ndebele in the northeast. European penetration and the introduction of colonial economic structures brought profound changes to the traditional economy of Botswana people. British interest and involvement in the area now known as Botswana stemmed not so much from area's resources, but rather from its proximity to South Africa and Rhodesia, where the British had interests. Events in South Africa, and particularly the competition for land throughout the nineteenth century between the British and the Boers, had a critical effect upon the fortunes and political destiny of the Tswana.

The people of Botswana had originally requested British protection from the Boers of the Transvaal. Protection was granted by the British in part to preclude an eastward encroachment by the Germans who were at that time colonizing Southwest Africa (now Namibia). The British established the Bechuanaland Protectorate, after much hesitation and reluctance, in order to guarantee the route from South Africa to Rhodesia, which was called the "route to the north." The British wanted a safe passage that could annex its territories in South Africa and their territory in Rhodesia, which is present day Zimbabwe. The British

had never wanted to colonize Botswana because the country had an arid climate; moreover, South Africa and Rhodesia possessed greater attractions for settlement and resource development. Botswana was not a territory that the British wanted for its economic resources or for purposes of British settlement. Instead the extension of British authority to the area was viewed as a necessity if other settler interests in the region were to be kept at bay. As a result of this attitude, the British aimed to keep the financial costs of their involvement on the protectorate to a bare minimum. British disinterest in running the affairs of Bechuanaland was evidenced by the British plan to hand over the protectorate to the British South Africa Company (BSAC) to govern the country. The BSAC, which was established by Cecil John Rhodes, a prominent politician in the Cape, South Africa, later gained influence over political affairs in Bechuanaland. The British gave the company, whose aim was to pursue mining concessions and commercial interests in Botswana and Zimbabwe, the right to exercise whatever powers were necessary to govern and to preserve the public order. Cecil John Rhodes, as chairman of the BSAC, was determined to include the Bechuanaland protectorate into Rhodesia and maneuvered his own take over of the protectorate. Britain was ready to concede over the

protectorate to Cecil John Rhodes when the Batswana chiefs Khama, Bathoen, and Sebele went to England to plead their case against BSAC rule.<sup>6</sup> The colonial office then reversed the decision, and instead a resident representative from Britain was sent to govern the protectorate while he was based in Mafeking in South Africa. In their negotiations the chiefs managed to persuade the colonial secretary to keep the three reserved territories of Botswana, Lesotho and Swaziland under British protection. So the company would now administer only a narrow strip of the railway line, which it had built in 1894 to 1897 to enable the settlement of the Europeans in Rhodesia. The chiefs deep distrust of Cecil John Rhodes resulted from earlier clashes that Khama had had with him when the two had allied against the Ndebele tribe in Rhodesia. The British government had seen the company as a means of protecting its colonial interests in the region at no cost to the public purse.<sup>7</sup> The Batswana were however uneasy with the company's role in the country. The formation of the Union of South Africa took place in 1910. The two Boer republics, Transvaal and the Orange Free State, which were defeated by the British

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<sup>6</sup> Colcough and McCarthy, *The Political Economy of Botswana*, 1980, p.13.

<sup>7</sup> *Ibid.* 13.

during the Anglo/Boer War, were joined with two former British colonies of Natal and the Cape to form the Union. The British and the South African governments believed that the destiny of the three protectorates lay in the incorporation with the Union. Of course the protectorates hastily opposed any incorporation into the South African Union. The British did agree with the South African argument that incorporation within the Union seemed to be the most sensible course administratively. The British therefore remained hopeful, and at times optimistic, that social policy in South Africa would take a more liberal turn. This idea that the territories would later join the South African Union also contributed to the sparse economic development in the territories because the British did not want to spend much money on countries that would eventually be relinquished to another government. The introduction of apartheid laws and the movement toward more repressive social policies in South Africa after the Second World War made the incorporation of the protectorates less and less likely.<sup>8</sup> South Africa was expelled from the Commonwealth in 1961 for its discriminatory laws, thus ending any chances

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<sup>8</sup> Ibid. p.18.

that the protectorates could be incorporated into the Union of South Africa.

**B. BOTSWANA'S ECONOMIC STATUS AT INDEPENDENCE AND THE FACTORS THAT INFLUENCED IT**

Botswana's rugged geography has totally dominated its economic development. The country is a vast tableland; much of it covered by the sands and grassy areas of the Kalahari Desert in the southwest. In the northwest the remarkable inland delta of the Okavango River creates the extensive Okavango Swamps. The best agricultural land and highest rainfall are found in the east, where the bulk of the population is located.

The pre-colonial Tswana economy was relatively self-sufficient. Families depended upon the land to satisfy their wants. They kept large numbers of cattle and also did subsistence arable farming. Their diet was a healthy one of sorghum porridge, milk, the meat of wild and domestic animals, vegetable dishes made from crops and wild plants, and beer. Clothing was made mainly from animal skins and was decorated with beadwork, and iron, copper or bone ornaments. The chiefs through the headmen of villages and wards administered the tribal territory and all its resources. The chiefs' responsibilities included

allocating land, free of charge, to members of the tribe for purposes of building their homes, cultivating the land and grazing cattle.

When the British took over Botswana in 1885 they adopted what was termed "indirect rule" to govern Bechuanaland together with Swaziland and Lesotho. Under this approach, the colonial government aimed to preserve earlier patterns of tribal authority, and traditional rulers were subject to restrictions only where, in the view of the colonialists, such restrictions were necessary to ensure good government. Although the British administration role was to be limited, England made it clear to the Tswana from the outset that the Tswana would have to pay for the costs involved in protecting their country. Thus the introductions of the "Hut Tax", which was levied on every hut the people owned. The chiefs were responsible for appointing the collectors and maintaining the tax registers. In return, the chiefs were paid 10% of the revenues they collected.<sup>9</sup> The cost of administering the protectorate was however found to be much higher than what the British had initially expected. In 1909 the administration doubled the rate of the Hut Tax to one pound

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<sup>9</sup> Ibid. p.19.

per year, which resulted in a considerable increase in the tax revenue. Thereafter no further financial assistance was received from the British until the 1930s. In 1919 an additional tax, called the Native Tax, was levied on the Batswana. This was in the form of a surcharge of three shillings on each pound of Hut Tax collected. The proceeds were paid into a Native Fund, which was to be used for financing African education, medical development, eradication of cattle diseases and other benefits to Africans. Another tax, the African Tax, an amalgamation of the Hut and Native Taxes, was introduced in 1938, and was paid by every African male above the age of 18 years. Throughout the period 1899 -1965 these were the main taxes the Africans paid in Bechuanaland. On the other hand, they contributed to the general revenues of the administration. But these taxes proved to be a great burden particularly on poor families. Otherwise they contributed to the general revenues of the administration. These taxes effected the distribution of cattle ownership. Some families had to sell off their cattle to be able to pay the tax, commonly ending up with no animals. These taxes also effected migrant labor, as able-bodied men had to migrate to South Africa for jobs. Their reason for seeking work in South Africa was that in Botswana domestic wage employment was almost non-

existent. This meant that most had to look for farm work away from their homes and families and increasingly, in the mines of South Africa. As it was, labor flows from Botswana to South Africa increased from a few hundred at the turn of the century to over 50,000 by 1960. Over this period, this represented a significant increase in the dependence of Botswana upon South Africa and created considerable difficulties for future policy.<sup>10</sup>

Batswana have always reared cattle. Their dependence on cattle has not always lacked challenges and drawbacks however. In the 1890s for example a cattle disease, rinderpest, hit Botswana cattle severely, killing close to 90% of the herd. Despite this, the cattle herd grew as high as 800,000 in 1932 and three million in 1978.<sup>11</sup> Periodic droughts have also caused dramatic stock losses, notably around 1914, 1933, the late 1940s, and the mid 1960s. These, together with equally frequent outbreaks of foot-and-mouth disease, particularly hurt farmers who owned marginal lands where the pasture was thin and those who owned only a few herds of cattle.

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<sup>10</sup> Ibid. p.21.

<sup>11</sup> Ibid. p.22.

In 1885 the High Commissioner stated that Britain's intention regarding the administration of Botswana was to do as little as possible. And throughout the 80 years of British rule very little was done for the development of the country-so much so that at independence Botswana's social and productive infrastructure was worse than any other former British territory in Africa. As a result of these policies in the mid 1960s, the per capita income of Botswana was one of the lowest in the world. Public expenditure during the colonial period was mainly financed from domestic sources. Grants-in-aid were received from Britain for eight years during the 1930s in order to compensate for the revenue loss arising from the closure of the union market to cattle exports from Bechuanaland. Recurrent subversions were received from the British government between 1911 and 1912, when the increased rates of the poll tax and the end of the railway subsidy allowed the budget to be balanced for the first time, and 1956/57, when grants-in-aid recommenced. The British Government made development loans and grants from 1932. But these grants were quite small until two or three years before independence. Cattle exports were the basis for both the Tswana and settler economies, and a large part of the administration's domestic revenues was contingent upon the

continuing export of cattle. An abattoir was built in Lobatse in the southern part of the country. Thus the colonial government had a major incentive to reduce the incidence of cattle disease in the protectorate, and this became the primary concern of the Botswana Veterinary Department. Initially, the main method of controlling foot-and-mouth disease was to clear cattle from the strip of land around the affected area, thereby keeping the disease confined. This approach was however both expensive and impracticable in a country as large as Botswana and in the early 1950s a reconstruction of veterinary cordon fences and quarantine camps, which, by the end of that decade traversed the entire country, began. As a result, foot-and-mouth disease was easier to contain. This emphasis upon veterinary expenditures for purposes of disease control was probably the most important benefit of the colonial period.<sup>12</sup>

Botswana's dependence on South Africa as a source of cash increased during the early 1960s with the onslaught of the worst drought since the end of the nineteenth century. From 1961 until 1967 rainfalls throughout Botswana was consistently well below the long term average. A series of

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<sup>12</sup> Ibid. p.31

crop failures necessitated a sharp increase in imports of maize and sorghum. About 400,000 cattle died during this drought. The value of exports, however, increased over the period because large numbers of cattle were sent for slaughter at the abattoir to avoid starvation. Unfortunately, the productive capacity of the agricultural sector was seriously depleted, and almost every family experienced losses at that time.

By 1966, the year of independence, over 100,000 residents (1/5 the population) were dependent on their food supply from famine relief programs. Most of these people had lost or sold their cattle and had no other means of securing cash incomes sufficient to meet their needs. The prospects for the future were bleak. Over 85% of the country's export income and up to one-third of the total output were normally generated by the cattle industry. Access to cattle was important for plowing and for making even a meager income from the land. The drought was thus a major disaster, which pauperized a large number of rural people and hit at the heart of the country's productive capacity and potential. Incomes for many people were lower than they had ever been, and a large proportion of the population was no better off than their grandparents had been at the end of the nineteenth century. Incomes in

Botswana had always been fragile. The drought demonstrated this in an extreme way, but it also showed that the years of colonial rule had done little if anything to protect the livelihood of the ordinary people. Few positive economic changes occurred during the colonial rule of Botswana: the administration began to levy taxes at an early date, without providing people with the means of paying such taxes. The widespread need for a cash income which this created, and which was further nourished by the growing availability of mass produced and imported consumer goods, forced many people to take menial labor jobs in South Africa. The Batswana received few of the benefits of modernization that could be seen to in other British territories. Investment in Bechuanaland was minimal throughout the colonial period, and the small number of regular jobs that were created was probably insufficient even to compensate for the decline in traditional sources of employment arising from the introduction of a cash economy open to imports from abroad. With the exception of expenditures on veterinary disease control, and the construction of the abattoir-both of which did much to protect the territory's export trade, the administration was not very active in improving the welfare of the African population. Any progress was mainly a result of tribal

initiative on the basis of local resources. This extreme neglect arose because the British presence in Botswana was not motivated by a search for exploitable resources but rather, in view of their interests to the north and south, to prevent the territory falling under the control of other colonists in the region. Initially, the main threat was the Boers and the Germans, but after 1909, the threat was from the Union of South Africa. With the economic situation bleak as it was in 1966, the British gave Botswana her independence. Not only did the problem lie with the droughts and the poor economy, but also the new government of locals was composed of untested men and women. The human resources were not at a caliber that permitted these leaders to resolve the nation's economic hardships. Despite all these negative aspects, elections were held in 1965 and the Botswana Democratic Party (BDP) led by Seretse Khama achieved a landslide victory. With the BDP as the ruling party, it was vested with the task of improving the economy of Botswana. In the next chapter, we see how the economy of Botswana underwent changes, surprisingly positive ones.

### III. BOTSWANA'S ECONOMY DURING THE POST-INDEPENDENCE PERIOD

The poor economic status of Botswana at its independence in 1966 cannot be overemphasized. Independent Botswana inherited a colonial state not worth the name. It did not have the manpower capable of promoting economic development, nor did it have the agricultural and industrial resources to rely on for future development.<sup>13</sup> The economy had no infrastructure necessary for the development of the country. Private surveyors had located deposits of diamonds and copper, but the future of mineral development seemed bleak because of the enormous costs of developing an adequate infrastructure. To add to these was the fact that the country had just experienced a very devastating drought. Botswana had lost a large number of their cattle and the farming yields were very small. Studies had concluded that it was only through donations and subsidies from western countries that the country could see itself through. By 1976 however, British subsidies had been discontinued because they were no longer necessary. Botswana had become self-supporting: it was meeting its

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<sup>13</sup> Samatar Abdi Ismail, *An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development*, (Portsmouth, NH: Heinemann, 1999) p.95

recurrent budget and 40% of its development budget. Table 1 shows the Per capita GNP (in US \$ and % compound growth rate) of Botswana and other African countries.

Table 1: Per Capita GNP and Growth Rate of Botswana and other African countries

Country	1965	1970	1975	1980	1985	1990	1996
Botswana	70	140	430	1020	1120	2490	3210
% growth		14.8 6	25.16	18.85	1.88	17.32	5.21
Lesotho	60	100	250	440	380	550	660
% growth		10.7 5	20.11	11.97	-2.88	7.67	3.08
Malawi	60	60	130	190	160	200	180
% growth		0.00	16.72	7.88	-3.37	4.56	-1.74
Mozambique	NA	NA	NA	NA	150	90	80
% growth		NA	NA	NA	NA	-9.71	-1.94
Swaziland	180	230	570	910	760	1110	1210
% growth		5.02	19.90	9.81	-3.53	7.78	1.45
Zambia	NA	440	600	630	360	530	360
% growth		NA	6.39	0.98	-10.58	8.04	-6.24
Zimbabwe	NA	330	600	760	630	690	610
% growth		NA	12.7	4.84	-3.68	1.83	-2.03

Source: World Bank, World Development Indicators 1998.

#### A. ECONOMIC PERFORMANCE IN THE FIRST TEN YEARS

The drought cycle came to an end in 1966 and farming, especially of cattle, expanded. This helped to move the

economy out of its extremely depressed state. A further impetus came from moving the central government from Mafikeng (in South Africa) to the newly-built capital town of Botswana, Gaborone. More government spending now took place inside Botswana. Imports grew, and so did customs revenues. Demand from the central government during 1966 and 1968 led to an increase in government employment and contribution to value added. These two factors helped to lift the economy to a new, higher level of spending and production. Three major events took place in the late 1960s, and they gradually changed the economic perspective of the country in a most profound way:

- De Beers Mining Company announced its rich diamond discovery at Orapa;
- Bamangwato Concessions Ltd (an Anglo American and Amax subsidiary) started to exploit the Selibe Phikwe copper-nickel deposits;
- renegotiations of the 1910 "Customs Union Agreement" with South Africa were successfully concluded.

These three events increased government revenue and exports by almost 700% during the first 10 years.<sup>14</sup>

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<sup>14</sup> Harvey Charles, *Papers on the Economy of Botswana*, (New Hampshire: Heinemann Educational Books Inc. 1981) p.7.

The economic upswing was further strengthened by a fourth event—the unprecedented strong export demand for Botswana beef. The Botswana Meat Commission's (BMC) production of cattle increased from 127,000 heads in 1970 to a peak of 209,000 during 1974 while the effective price more than doubled.<sup>15</sup> Thus Botswana Meat Commission's total payments to farmers were P9.2 million in 1970 and P28 million in 1974, the increase coming entirely from export demand. These four occurrences set in motion a vast expansion of the overall demand in the economy, and especially of imports. Imports rose by more than 375% from 1968 to 1976, from P32 million to about P152 million.<sup>16</sup> From late 1969 and onward the economy entered a phase of expansion led by construction and other fixed-capital formation. Building and construction output increased from P5.7 million during 1968 to P23.8 million during 1972 and to P49.6 million during 1973-74.<sup>17</sup> Following these improvements was the expansion of the service sectors: trade, transport, business and household services and

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<sup>15</sup> Botswana Meat Commission Reports, 1970-74.

<sup>16</sup> Harvey Charles, *Papers on the Economy of Botswana*, p.7.

<sup>17</sup> Botswana Government Central Statistics Office

utilities.<sup>18</sup> Value from these sectors increased from P13.6 million during 1968 to P31.4 million during 1972 and P64.4 million during 1973-4 according to the Botswana Central Statistics Office (CSO) calculations. New cities were built, and urbanization was growing at about 15% a year. See table 2 for some of the economic indicators in the first ten years of independence.

Table 2: Economic Indicators for Botswana in the First Decade of its Independence

Aggregates	1966	1971/2	1973/4	1974/5
Gross Domestic Product (R million)	36.8	103.6	198.4	205.7
Gross Fixed Capital Formation (R million)	8.1	53.1	77.5	56.8
Imports of Goods (R million)	18.8	50.7	104.0	119.6
Government Revenues (Recurrent) (R million)	6.2	17.1	40.7	60.7
Government Foreign Borrowing (R million)	3.7	12.1	27.7	20.2

Source: "Botswana: African Growth Economy"

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<sup>18</sup> Ibid.

Throughout its post-independence period Botswana has sustained a high rate of economic growth, a stable government, and an improved quality of life for its citizens. The quality of life in Botswana might not compare favorably with most western countries, but by African standards it has been high. The political infighting and economic despair that have become the case with postcolonial African nations have not beset Botswana. If we define "success" as a combination of economic growth, political stability and legitimacy, and a general improvement in the living conditions of citizens, then Botswana has achieved success.

A number of factors can be attributed to the rapid growth of Botswana during the first decade. There are those which appear to have been by mere chance: the relative homogeneity of the country and the presence of valuable natural resources like the discovery of diamonds. However, it needs to be pointed out that other African countries with homogeneous population, Lesotho for example, did not have the same degree of success as Botswana. Lesotho has struggled greatly with internal conflicts and factionalism. Also, other African countries with valuable natural resources have not been as successful as Botswana. A look at the record of oil producing and hard mineral exporting

countries demonstrates that mineral wealth alone is no guarantee of sustained economic development.

There are also factors that stem from the character and history of the people. The Tswana have a long standing concept of popular sovereignty, a strong sense of constitution and legality, an eagerness to solicit advice of outsiders, and a willingness to cooperate, both internally and with foreign powers.

I will now discuss the fundamental factors, which I think have been greatly critical to the economic success of Botswana more especially during the first ten years as the country was beginning.

Botswana's leadership was very conscious of the prerequisites of development and these prerequisites included a stable political environment, human resources, property rights, technology changes, and capital resources. The most crucial factors in the case of Botswana in the first ten years after independence were the management of the political environment and human resources.

#### **B. MANAGING THE POLITICAL ENVIRONMENT**

Botswana has certainly done a better job of implementing and trusting democracy than has, arguably, any other country in Africa. This factor is perhaps the most

important, as it substantially differentiates Botswana from almost all other African countries. The mere fact that political stability was acquired right at the assumption of power by the new government has been crucial.

Since its independence in 1966, the Republic of Botswana operates on the governing principle of democracy and throughout its post-independence period the system has proved to be working well for the country. The same political party, the Botswana Democratic Party (BDP) has been in power since independence. Elections occur every five years with about eight parties vying for power. Up to now the country has had three changes of heads of state. What is of paramount importance about Botswana is that all changes in power have been peaceful and democratic and have followed the guiding principles of the Botswana constitution. Political freedom is extensive and peaceful, though heated political rallies by the ruling and the opposing parties are a regular feature throughout Botswana.<sup>19</sup> Botswana has managed to maintain a functioning, multiparty democracy throughout its 33 years of independence, a situation unheard of in post colonial Africa. Perhaps most remarkable of all is the fact that

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<sup>19</sup> <http://www.gov.bw/gem/index.html>

these achievements have come in the face of extremely hostile regional geopolitical and international politico-economic situation.<sup>20</sup>

It is undeniable that for economic progress one of the requirements is a stable political environment. In 1755 Adam Smith famously remarked that "Little else is requisite to carry a state to the highest degrees of opulence from the lowest barbarism, but peace, easy taxes, and tolerable administration of justice." A closer look at the decisions by the Botswana leadership at independence suggests that they were totally committed to the economic progress of the country, and they sought an open and just political climate.

Peace, of course has never been guaranteed in the continent of Africa. From southern Africa all the way up to the north of the continent there have always been conflicts either within or among African countries. The root causes of the conflicts are quite diverse. Botswana just like other African countries was always faced with the threat of conflict. In the case of Botswana however, the threat was from outside its borders: at independence, President Seretse Khama and his government found themselves

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<sup>20</sup> Saddiqui R, *Sub Saharan Africa in the 1990s-Challenges to Democracy and Development*, (Westport, CT: Praeger Publishers, 1997) p.88

as governors of the state that shared borders with two hostile, racist regimes; the apartheid regime in South Africa and the white government in Rhodesia. So, weak and surrounded, Botswana's leadership sought a pragmatic course that clearly defined the security problem in realistic terms. Part of Botswana's success is due to how the country's leadership has defined and approached its security problem. The strategy was to avoid military engagements with the neighbors at all costs, and also to guarantee peace within its borders. Cross-border raids into Botswana by the armed forces Rhodesia and South Africa were quite common during the time of the minority governments in those countries.

Considering the poor economic status of the country after independence, it was very important for Botswana to avoid military engagements with its neighbors at all costs. Not surprisingly the government openly acknowledged that it could not defend its borders against its neighbors.<sup>21</sup> Botswana did not have a military force until 11 years after its independence in 1977. Unlike most African countries, it did not have any military expenditure to strain its budget for the first ten years after independence. The

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<sup>21</sup> Hartland Thunberg Penelope, *Botswana: An African Growth Economy*, (Boulder, CO: Westview Press, 1978) p.70.

fact that the country did not have a military force for so long after independence made persistent invaders like South Africa and Rhodesia reconsider terrorizing the country. In its bid to show its case for non-confrontational relationship with its neighbors, Botswana offered sanctuary only to bona fide refugees. And by not allowing guerrillas to establish bases on its soil, it deprived its neighbors of any excuse for invading of its territory. The Khama regime has conducted itself with dignity and propriety in its relations with its neighbors, white and black, and has in no way compromised its principles of democracy and human rights by acknowledging the harsh reality of its independence. Through its first decade, it has walked this foreign policy tightrope with great success.

Most African governments have failed notoriously to provide basic security for their people. There is one simple, often neglected lesson: war stops development. Wars, civil and international, political instability, and breakdowns in the rule of law have brought suffering to a multitude of Africans, displacing many, forcing others to retreat into the subsistence economy or to operate in the twilight zone of the economy, and contributing to the creation of burdensome armies.

Wars have claimed millions of victims, either directly or indirectly, by making the provision of food and basic social services difficult or impossible. Today, in this post Cold-War period, war in Africa persists. Sub-Saharan African governments spend four times as much on military as on health, and equal amounts on the military than education. And without doubt such expenditures are made at the expense of more productive and economic growth-oriented expenditures.

An ideal example to compare Botswana with would be Lesotho; the country has a number of similar features as Botswana. Both were colonized by the British and were subjected to "indirect rule" as described in chapter two. The countries also became independent at the same time. Also both countries are in the same region of Africa, Southern Africa, and their economies have to a large extend been influenced and dependent on South Africa. In 1966, Lesotho became independent under Prime Minister Chief Leabua Jonathan. In 1970, in Lesotho's only post independence election until 1993, Chief Jonathan's party, Basutoland National Party (BNP), lost majority control of the legislature to the opposition Basutoland Congress Party (BCP). The electorate had become dissatisfied with the

economic failures of the BNP government.<sup>22</sup> However, Jonathan preempted the democratic process, seizing power four days after the elections, his actions were justified by claims of unfair practices on the part of the BCP. Jonathan's assumption of power and his subsequent measures to retain it have had major effects on Lesotho's development and success. Following his seizure of power, he tried to eliminate all forms of resistance. Conflict between protesters and the increasingly strong-arm tactics of the police force resulted in the deaths of several hundred Basotho. New legislation in the 1970s gave the government alarming powers of detention and interrogation without trial and the military and police force were rapidly expanded.<sup>23</sup> Jonathan also suppressed trade and worker unions through obvious preferential treatment for his supporters. Chief Leabua Jonathan's unpopular and undemocratic rule led to increasing amounts of resistance. One side effect of this conflict was that the amount of government resources and political discourse devoted to issues of development decreased. As did many African leaders faced with civil unrest, chief Jonathan devoted a

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<sup>22</sup> <http://students.cec.wustl.edu/~jrt3bots.html>

<sup>23</sup> Ibid.

disproportionate and economically unhealthy proportion of the state's revenues into the military. The government was more concerned with retaining its power than with providing a strategy for development of the country; development suffered as a result. Of course, development failures in Lesotho can be attributed in part to factors over which the government has no control, such as the reliance on migrant labor and the dependence on South Africa inherited from the colonial era. Nevertheless, the government is at fault as well: evidence suggests that the government's disappointing record can be attributed in part to important political and administrative shortcomings of its own making that have constrained its ability to frame and implement an effective program of social and economic development. The success of Lesotho as a multi-party state has been hampered by the legacy of Jonathan's authoritarian regime. Since the 1993 elections, the military and police have been accused of numerous human rights abuses and the government admits it does not have the power to stop them. This lawlessness has severely hurt the economy as well, as it has scared away foreign investment. The problems that Lesotho has faced

could have been avoided in a stable political environment like that of Botswana.<sup>24</sup>

### C. HUMAN RESOURCE MANAGEMENT-RETENTION OF EXPATRIATES

One of the negative effects of the colonial civil service was that very little had been done to educate the people of Botswana. T. C. Luke, a Ghanaian commissioned in 1966 by the new independent government survey on localization in Bechuanaland, found that far too few resources were committed to educational development as compared to most other former British colonies. He recommended urgent commitment to the improvement of the educational system in Botswana. Partly as a result of this meager beginning, Botswana has exhibited throughout its post-colonial history a tendency to value education highly.<sup>25</sup> The state's new leadership recognized it needed to establish sound and effective public institutions to carry out its development objectives and this required educated and skilled people. Botswana did not have locals with the necessary skills and education.<sup>26</sup> Only 40 Batswana

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<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Samatar Abdi Ismail, *An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development*, p. 62.

had university degrees in 1965.<sup>27</sup> This adverse education situation severely handicapped the new regime, forcing it to depend more on expatriates for high levels of policy making and professional services. The protectorate administration's 1960-64 "Development Plan" identified 170 primary schools, three junior secondary schools, three senior secondary schools and a government teacher-training college.<sup>28</sup>

The 1960-64 and 1963-68 development plans articulated that the principal development strategy would be based on a market economy, and the government would play a crucial role in this agenda.<sup>29</sup> Thus the government devoted a lot of its efforts to the development of its human resources. It realized that, given Botswana's underdevelopment, the state had to provide infrastructure and public institutional capacity to stimulate economic growth.<sup>30</sup> To fulfill this agenda, the BDP leaders recognized the importance of an effective and competent civil service. The first

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<sup>27</sup> Republic of Botswana, *Transitional Plan for Social and Economic Development*, (Gaborone, 1966), 8.

<sup>28</sup> Luke T., *Government of Botswana, Report on Localization and Training*, (Gaborone, 1964).

<sup>29</sup> Samatar Abdi Ismail, "An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development," p.79.

<sup>30</sup> Republic of Botswana, *Transitional Plan*

development plan stressed the significance of sound planning.<sup>31</sup> Thus the government appreciated that since the locals did not posses the adequate skills, the way out would be to make use of the expatriates.

"My government is deeply conscious of the dangers inherent in localizing the public service too quickly. Precipitate or reckless action in this field could have disastrous effects on the whole program of services and development of the government . . . potential donor countries might be reluctant to provide aid as they would not wish to see such aid mal-administered, and I must again emphasize that we need aid."<sup>32</sup>

Seretse Khama said this in his first presidential speech in 1966.

In most African countries, the localization of the civil service was among the first acts of government immediately after independence. Localizing public service entailed quick and massive promotions of indigenous bureaucrats in the military or civil service to positions previously earmarked for and occupied by colonialists. Botswana was among the African countries that, although eager to localize the service, were relatively slow and

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<sup>31</sup> Samatar Abdi Ismail, *An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development*, p.78.

<sup>32</sup> Parsons, Henderson, and Tlou, *Seretse Khama: A Personal Appreciation*, (African Affairs, 1990) p.253.

more deliberate in the speed with which the process unfolded in the senior professional and technical areas.<sup>33</sup> The government was careful in implementing localization. Its policy was to replace expatriates with locals only when Batswana with suitable qualifications had been identified. The vice-president noted that well run and efficient public institutions were necessary if resources and budget deficient Botswana was to mobilize overseas resources.

"Even if we could afford to be irresponsible and just appoint people left and right, we must know that we are a poor country. We almost live on donations. . . unless we can put it to good use, unless we can see that we use it(foreign aid) properly we can not hope to continue to get it. It does not matter whether it comes from the UK . . . there is no country that would just throw its money to another country and not be interested in knowing know how the money is used, and money can only be properly used if it has efficient people to use it."<sup>34</sup>

So it became the government policy to retain any skilled former Protectorate officers willing to stay. It also solicited donor agencies and countries to assist the government by providing trained expatriates. Second, it embarked on training Batswana in significant numbers at

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<sup>33</sup> Samatar Ismail Abdi, *An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development*, p.78.

<sup>34</sup> Republic of Botswana, National Assembly Official Report, (Hansard 22): (Part 2 Gaborone 1987), 189.

home and abroad. The strategy worked well, and the government developed its institutional capacity.

An important factor in the economic achievements in the first decade was Botswana's willingness to seek foreign expertise to supplement its own meager supply of trained professional and technical talent in staffing the ranks of the senior civil service. Equally important was the reception accorded them. They were made to feel so welcome that many of the top expatriate civil servants have been in their jobs for most of the decade. Botswana was however fortunate to some extent: the country did not harbor any resentment toward citizens of the former colonial power. This led to a high degree of trust and mutual respect between Botswana government officials and expatriate civil servants. The trust would not exist if the top political leaders had any doubt about the loyalties of the expatriates, or the expatriates themselves felt at all harassed or unwanted. This however, does not say that there were never any pressures for localization. The pressures were there, especially from the opposition parties, but they were managed in a mature, pragmatic manner in order to maximize economic growth.<sup>35</sup>

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<sup>35</sup> Hartland Thunberg Penelope, *Botswana: An African Growth Economy*, p. 8.

The country could not have accomplished what it had without the expatriates' skills. To have forced locals into top-level policy positions before they were qualified would have meant plans less carefully developed, projects less completely studied, and proposals less thoroughly documented. And the end result would have been failure. The sound management of resources which was made possible by the involvement of the expatriates put Botswana in a favorable position as a recipient of foreign aid which was so crucial for African states starting the development of their economies. Recent studies on aid to African countries suggest that aid has somehow contributed to the poor economic status in Africa, but the studies emphasize that aid is bad where economic policies are bad. This was never the case in Botswana, as the expatriates' expertise was used to formulate appropriate economic policies for the country. Also encouraging was the stable political environment in the country.

The involvement of expatriates proved very helpful in negotiations. The Southern African Customs Union, (SACU) which later became one of the largest sources of revenue for Botswana during the first decade as earlier stated in this paper, was an example. The governments surely needed the expatriates on their negotiating team. Had the

government hastily localized all civil service positions, the argument goes, it may have been forced to field a team that lacked training and competency to negotiate successfully. This renegotiated SACU agreement and the agreement with private firms and donors to finance and develop a copper and nickel complex, commonly known as the "Shashe Project", in Selibe Phikwe, enabled Botswana to balance its annual budget for the first time in 1972 without grants from its former colonial master.<sup>36</sup> The discovery of diamonds and the subsequent negotiation with the De Beers Mining Company and infrastructure development firms necessitated the employment of large a number of expatriates. The vice president noted this in his 1979-80 budget speech:

"The rapid expansion of government activities has resulted in a rapid growth of demand for skilled manpower that exceeds the growth in the domestic supply. Thus in spite of the rapid increase in resources allocated to education, the skilled manpower shortage will become worse. In order to bridge the gap, the government will continue to employ expatriates . . ."<sup>37</sup>

The enormous wealth created by exploiting the country's mineral reserves was final proof that the

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<sup>36</sup> Samatar Abdi Ismail, *An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development*, p. 80.

<sup>37</sup> Ibid. p.81.

government's use of skilled expatriate labor, a fundamental tenet of its localization policy, had indeed paid off. The leaders' appreciation of the country's underdevelopment, and their decision to use the state to stimulate the economy, made them realize that efficiently run institutions were critical to their agenda. Hence the "go slow" localization policy was firmly in place.

## **IV. BOTSWANA'S ECONOMIC PERFORMANCE 1976-1986**

### **A. ECONOMIC PERFORMANCE IN THE SECOND DECADE**

Throughout the second decade of independence economic growth in Botswana was led by the mineral industry. The economy continued to rise to higher levels of incomes and demand, even though growth rates were not as high as in the first decade. There was an upsurge in the copper and nickel production beginning in 1975 as a result of the opening of the Selibe Phikwe plant after years of teething problems. Also, diamond exports continued their expansion after 1975 due to the increased production at the Orapa and Letlhakane mines and increased diamond prices. A substantial increase in diamond production, occurred in 1982 when the new Jwaneng mine started commercial operations. One of the national targets of the country at independence was to build an economically viable sovereign state. And the mineral revenue was helping the country to meet this target. A crucial factor to the sustenance of economic growth in Botswana during the second decade after independence was its emphasis on the sound management of the public sector. Good governance, guarding against

corruption and continued good use of foreign aid saw the economy surviving harsh droughts and economic recessions, which hit African countries.

#### **B. MANAGING DEVELOPMENT POLICY IN BOTSWANA**

In most developed and developing countries, state ownership of enterprises expanded rapidly in the 40 years following World War II. Most public enterprises were created in response to a variety of economic and political problems. Most of the countries wanted to provide services that the private sector was either unwilling or unable to offer. Over the years, in developing countries, public enterprises became not only instruments of channeling investment flows, supplying adequate social and economic infrastructure, pursuing development programs and redistributing income but also a means for politicians to create independent bases of power by rewarding supporters through job allocation and investment.

Like most African countries after independence Botswana's economy was highly influenced by the government. The country had a number of nationalized institutions, for example the Botswana Meat Commission, Botswana Housing Corporation and the Botswana Development Corporation. To get the most out of its nationalized institutions the

Botswana government put a lot of emphasis on a competent public service. Efforts were taken by the government to develop a productive public sector. For example the government formed programs such as, Organization and Methods Review (O&M), training, the promotion of productivity and Work Improvement Teams (WITS). The following is a brief review of these programs:

**Organization and Methods Review:** This was a comprehensive undertaking designed to improve the institutional capacity of the development management machinery for successfully implementing a development policy. The O&M was expected to result in, among other factors, a stable, adequate, and effective public service that would serve the government; and which would have unequaled ethical standards, high integrity, morale, and competence to effectively discharge all responsibilities at all levels of its operations. The O&M review was intended to strengthen the institutional capacity of the public sector to implement development policy and meet national objectives by improving some organizational arrangements, accountability, operational work procedures, and the quality of human resources and management.<sup>38</sup>

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<sup>38</sup> Hope Kempe Ronald Sir. *African Political Economy: Contemporary Issues in Development*, p.138.

**Training:** Considerable emphasis was placed on improving the skills and competence of the public servants in their role as managers of development policy. The basic objective was to improve motivation, performance, and productivity in the interest of the nation. Botswana, through its political leadership, is one of the few developing countries with a group of truly indigenous institutions capable of dealing with the demand of modern development management training.<sup>39</sup> The country has formally recognized and adopted training policies that integrate public service training with broader human resource development policies such as promotion. The Directorate of Public Service Management (DPSM) develops training plans on an annual basis. Through its emphasize in training the government of Botswana, with assistance from donor agencies strengthened local training institutions and encouraged the Botswana Institute of Administration and Commerce(BIAC), Institute of Development Management (IDM), Botswana National Productivity Center (BNPC) and University of Botswana(UB) restructure their programs to conform to development objectives and national policies.<sup>40</sup>

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<sup>39</sup> Ibid.139.

<sup>40</sup> Ibid.139.

Unlike those in other African countries Botswana's formal training programs were not geared directly, or indirectly, to systems maintenance but rather were oriented toward change. These training programs were developed to meet carefully defined national training requirements. Training is undertaken in an environment of policies, procedures, standards, and national objectives and has an intimate relationship to other strategies for economic development and progress.

**Promotion of productivity:** The government of Botswana realized that improving productivity in the public sector was a critical need, so it was always engaged in a campaign to enhance productivity nationally. To achieve this, it established the BNPC. Its mission is to work with both the public and private sectors in promoting productivity as a long-term strategy for the creation of employment opportunities, international competitiveness, and improvements in living standards.

**Work Improvement Teams:** These are work improvement teams in the public service. The government requires all public officers to be members of WITS. The primary objective of the overall strategy is to increase productivity in the public service. Because of this, even though like other

African countries Botswana used a state-driven economy approach, it took steps to ensure that the system worked.

Both the government and the public servants played pivotal roles in the management of the development policy. The sustained national development was heavily dependent on the efficient channeling of revenues, primarily from the mineral sector, through the public finance process into public programs and projects designed to support private sector, to create employment, and to facilitate the expansion and diversification of the economy. The partnership between the government and the public service has worked remarkably well and the country has justifiably acquired an international reputation as having a sound and prudent development management and efficient and accountable public bureaucracy.<sup>41</sup> Macroeconomic management in Botswana concentrates on public expenditure and project management and also allows for the involvement of the private sector. There were never any barriers set by the government to frustrate the private sector. Resources accruing to the government combined with a relatively restrictive control on international capital flows have left the government as the major player in the economy as

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<sup>41</sup> Ibid.133.

an owner of productive assets, employer and source of credit.<sup>42</sup> There have, however, been questions on the effectiveness of a state-controlled economy as opposed to a market-driven one. Some of the factors that have led to this debate have been the wide-spread mismanagement, budget deficits, and political abuse associated with this economic approach. African countries have fallen victims to these unfortunate incidents. This has led to an ideology that the public sector is the primary cause of all that is wrong in many economies.<sup>43</sup> A look into the Botswana literature shows that the government has been a major player in the economy ever since independence. Though government led economies have proven to be failures in most African countries, somehow the approach has worked for Botswana because programs like WITS and appropriate training of managers were in place to establish a competent public service. Opponents of the state led economy approach argue that with the system, efficiency is never achieved and bad practices, such as corruption, are common.

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<sup>42</sup> <http://odin.de.no/ud/publ/order/1998/summ/6.html>

<sup>43</sup> Samatar Abdi Isamil, *An African Miracle: State and Class Leadership and Colonial Legacy in Botswana Development*, p.66.

### C. PLANNING SYSTEM IN BOTSWANA

Politicians have left the day-to-day running of the planning system to professional planners while they have concentrated on setting the policy objectives and development strategies. Good communication between politicians and bureaucracy, whether the locals or expatriate staff manned the latter, have always been emphasized in Botswana. Merit and skills have taken precedence over localization as employment and promotion criteria in the planning system. Botswana's planning system has proved to be highly competent. Botswana's approach was to build effective public institutions to develop a capitalist economy. Nurturing and protecting these institutions from the dominant class and others was critical to the country's success. And to do this the government came up with the Botswana Development Corporation (BDC). The BDC was the country's chief catalyst of growth. It was formed to identify investment opportunities in Botswana for exploitation by both local and foreign investors. It has a leading role in the proportion of private sector development. The BDC was set up in 1970 as a government public company with the objective of stimulating economic development by identifying viable investment opportunities and developing

them on its own or in partnership with local or foreign investors and by so doing bringing the private sector into play.<sup>44</sup> The corporation participates by providing equity capital and or medium or long term loans; it also assists in the preparation of market surveys and financial flexibility studies.

Botswana differed with other African countries that used government led economies in that the government ran only those sectors where the private sector was not able or willing to take charge. The government never found running such operations as transportation, retailing and commercial banking as worthy.

#### **D. FOREIGN AID MANAGEMENT IN BOTSWANA**

Like most African countries Botswana's economy in the years after independence was greatly assisted by foreign aid. Obviously an accumulation of large amounts of aid does not guarantee economic growth or success.<sup>45</sup> Aid to poor countries has largely failed to spur growth or relieve poverty. Effective aid has been found in situations where countries' policies have been appropriate as well as

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<sup>44</sup> HartLand Thunberg Penelope, *Botswana: An African Growth Economy*, p. 36.

<sup>45</sup> Paul Collier, *Journal of African Economies*, Volume8, Number 4. P528-545.

when the terms of aid are suitable. Aid also has to be used wisely. It does work, but only if it is limited to countries that are pursuing sound economic policies. Indeed aid has produced so few successes and so many mistakes. History offers one outstanding clue: if relief is not carefully aimed at countries with genuine commitment to sound economic management, it will be wasted.

Aid has failed spectacularly to improve the lot of its intended beneficiaries while it was hoped it would boost recipient countries' growth rates and thereby helped millions to escape from poverty. Yet countless studies have failed to find a link between aid and faster economic growth.<sup>46</sup> Poor countries that receive lots of aid do no better, on average, than those that receive very little. Why should this be? In part, because economic growth has not always been the donors' first priority. Some donor agencies give aid to further their own interests, which do not necessarily include economic growth. Even when development has been the goal of aid, foul-ups have been frequent. This is common when inadequate research has been carried out before aid is made available. Aid faces further hurdles in recipient countries. Wars disturb the

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<sup>46</sup> Ibid.

best laid plans. In the Congo, for example, a shipment of vaccines was destroyed when rebels cut the power supply to the capital city, shutting down the refrigerators where the medicines were stored.<sup>47</sup>

A good example of failing aid is Zambia. At independence in 1964, Zambia seemed poised for success. At that time, it was the second richest country in Africa. It had a popularly-elected government, which was committed to helping the poor, using revenues from its large copper mines and a generous stream of aid. Most donors believed that the main obstacle to third-world development was a lack of capital, and that giving poor governments cash to invest would spur growth. It was not so simple. Zambia's first president, Kenneth Kaunda, set up a one-party state and nationalized every source of economic activity from dry cleaners to car retailers. His officials told farmers what to grow, bought their crops and sold them at heavily subsidized prices. The Zambian government assumed that the copper mines would provide an inexhaustible source of revenue, however badly managed. Zambians came to see government loans as a perk of freedom from colonial rule.

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<sup>47</sup> <http://www.economist.com/editorial/freeforall/19990626/sf0020.html>

In the mid 1970s, the prices of copper tumbled, and the country's economy slowed down. Foreign donors picked up the slack. As Kaunda's economic policies grew worse, aid increased steadily, reaching 11% of real the GDP by the early 1990s. IMF loans were tied to free-market reforms, but these were enacted reluctantly and frequently reversed. Donors agitated for free elections and in 1991 Frederick Chiluba, a former union leader and avowed economic reformer, became president. Aid began to flow again, but Mr. Chiluba's zeal to privatize was soon dampened by the discovery that state-owned firms provided ministers with lucrative opportunities for patronage. Zambia provides a perfect example where even though aid was abundant, because of inadequate economic policies, desired results were never achieved.

#### **E. PUBLIC SECTOR IN BOTSWANA**

After discovering resources on which to base its economy, the government of Botswana developed the means by which the country's resources had to be effectively and efficiently exploited. Hence an emphasis on a competent public sector. Botswana developed an international reputation as a nation that stands out among developing countries, and in Africa in particular, for its generally

successful economic management and its development policy emphasis on the need constantly to improve the quality of professional public servants.<sup>48</sup> As stated earlier, the economy of Botswana has all along been dependent on the mining of diamonds. Yet to say that just the discovery of diamonds led to the economic growth of the country would be disregarding some important issues. For instance many African countries are known to have valuable minerals like diamonds but instead of economic progress from the exploitation of the mineral there has been negative results.

For much of the post-colonial period, most African governments have been undemocratic. They expanded the public sector while imposing wide-ranging controls on private activity. These choices have been economically costly. Public employment was expanded, often as an end in itself. The ratio of wage to no-wage expenditures in African governments is double that in Asia, and this has lowered the quality of public services; for example in education, teaching materials are often lacking. The combination of low wage levels and payment structures, which rewarded social connections rather than skill, made

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<sup>48</sup> Hope Kempe Ronald Sir. *African Political Economy: Contemporary Issues in Development*, p.133.

it difficult for managers to motivate staff, and the difficulties of service delivery were compounded by the low ratio of non-wage to wage expenditures. Since public sector employment was the main priority, managers were not under pressure for actual delivery of services from their political masters. Because of a lack of democracy, neither were they accountable to the broader public. As a result Africa experienced a paradox of poor public services despite relatively high public expenditure. Poor service delivery has handicapped firms through unreliable transport and power, inadequate telecommunications networks, and unreliable courts. Poor public service delivery also handicapped households through inefficient education, health and extension services. A survey of primary education expenditures in Uganda found that, of the non-wage money released by the ministry of Finance, on average, less than 30% actually reached the schools.<sup>49</sup> The expansion of the public sector has reduced private initiative. Since major areas of economic activity were reserved for the public sector, often including transport, marketing and banking. African rulers looked to the public sector rather than the private sector for advancement,

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<sup>49</sup> Ablo Emanuel and Rivta Reinika, "Do Budgets Really Matter?" Evidence from Public Spending on Education and Health in Uganda, 1998.

hence Africa was slow to develop indigenous entrepreneurs.<sup>50</sup> In many sub-Saharan African countries, the inefficiencies of the civil service threatened almost all development efforts as well as basic public administration. Weaknesses in key central functions of government are particularly damaging since they can affect all government activity and the economy as a whole. The capacity to make and implement policy is often reduced, revenue goes uncollected, such resources that are available are not well used, and morale and motivation ebb away. These have both been effects of, and significant contributions to poor economic performance. This has clearly been seen in a number of countries as producing crises in the government administration.<sup>51</sup>

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<sup>50</sup> Paul Collier and Jan Willen Gunning, "Why Has Africa Grown Slowly?"

<sup>51</sup> <http://www.worldbank.org/afr/findings/english/find04.htm>

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## V. BOTSWANA'S ECONOMY IN THE 1990S

### A. ECONOMIC PERFORMANCE IN THE 1990S

Up until the early 1990s, Botswana pursued a development strategy that relied heavily on public investment in the diamond sector and expansion of the public sector. The three diamond mines of Letlhakane, Orapa and Jwaneng boosted diamond exports of 15 million carats by 1992. As a result, the GDP originating from the diamond sector grew on average by about 10% annually, and public expenditure reached 41% of the GDP in 1992. Overall growth had been strong and formal sector employment expanded at an annual average of nearly 8%. Lack of diversification of economic activity was acutely felt when the diamond market weakened and the economy entered a recession during 1992-94. The real GDP growth slowed to about 2% a year, employment in the formal sector declined, while unemployment, especially among school dropouts and dislocated workers rose as the manufacturing, mining, and construction sectors shed labor. The financial position of the central government also weakened while the fiscal surplus narrowed to 1.9% of GDP in 1995/96 from 8.6% in 1991/92, owing largely to difficulties in slowing expenditure growth. At the same time the country's

external current-account surplus fluctuated widely through 1994. As a consequence, doubts arose about the long-term viability of the prevailing government to lead the economic development strategy. This underscored the urgency to emphasize diversification of the economy and private sector activity.

#### **B. GOVERNMENT SHIFTS POLICY GEARS**

Notwithstanding the impressive social and economic achievements to date, Botswana's economy has remained narrowly based, as only limited diversification was achieved under the previous economic strategy. The government's efforts to encourage private sector growth were however frustrated by the excessive public sector involvement in economic activities. The 1994 mid-term review of the Seventh National Development Plan, "Economic Diversification" the thrust of the plan, proved difficult to achieve, in part, due to the failure to implement approved policies and an over-ambitious development program and because diversification was approached as a long term process. Furthermore, the economy's duality persisted, and limited progress was made in improving the plight of rural and low-income urban households. Despite this the government went ahead trying to change its economic

strategy by assuming less and less involvement in economic activity.

In the early 1990s, the BDC began divesting its shareholding in a number of industrial firms. The Botswana Development Corporation's (BDC) latest divesting has been slow, as it had to prepare some of its remaining companies for disposal. Most of these needed further nurturing or restructuring to make them profitable and attractive to private investors. Also complicating the disposal of BDC interests was the fact that the corporation was a minority shareholder in the companies. The process was started in 1994 and was a key component of the government's strategy to empower Batswana. By selling stakes, the BDC has contributed to the promotion of competition and efficiency.

The impetus for a policy shift came in response to several adverse developments, and it has gathered considerable momentum during the preparation of Botswana's Eighth National Development Plan. The policy change focuses mainly on stimulating private sector activity through:

- Introducing institutional reforms;
- Removing market impediments; and
- Strengthening financial policies.

Botswana's intensified diversification effort targets the private-export-oriented manufacturing sector, for which the authorities seek to provide stronger and more focused support. To this end, the authorities have reviewed and have considerably improved existing policy frameworks and institutional arrangements. For example, tax and other incentives under the Industrial Development Policy(IDP) and the Financial Assistance Policy (FAP) are more targeted to export manufacturing, while the Trade and Investment Promotion Agency(TIPA) has become autonomous and assumed a broader role. Moreover, under the Accelerated Land Servicing Program(ALSP), fully serviced industrial plots and factory shells should be more readily available to investors.

To foster efficient domestic markets after the major drought, Botswana has shifted from a policy of self sufficiency in food supply to food security and eliminated crop subsidies in favor of regional trade and import parity crop pricing. The government has reduced corporate and personal income tax rates to 25%(15% for manufacturing firms) from 35% and it has lowered external tariffs and simplified their structure in the context of the SACU and World Trade Organization(WTO). The authorities also liberalized external current account transactions. In

November 1995, Botswana accepted the obligations of the IMF Article VIII, agreeing not to impose restrictions on payments and transfers for current international transactions. Moreover in the last few years, Botswana has liberalized most capital account transactions; most significantly, 70% of the portfolio of institutional investors (such as pension funds) can now be invested abroad, compared with 50% previously. As a result of the liberalization of the external sector, non-traditional exports have grown rapidly averaging 30% a year during 1994-96 including vehicle assembly, textiles, and food processing, which have captured sizeable export markets in South Africa.

The weakening of Botswana's public finances, as reflected in the sharp decline in the fiscal surplus in the early 1990s, prompted the authorities to reorient revenue and expenditure policies. Such reorientation was also seen as essential to move toward a more efficient but diminished role for the public sector. To reduce reliance on diamond revenue, the authorities have extended coverage of the sales tax to more goods and to services as a prelude to the introduction of a value added-tax, at the same time, tax administration is being improved with hiring, expanded training, and computerization. On the expenditure side,

the public sector wage increases were limited to about 4% a year during 1994-1997, while lending to public enterprises has been increasingly restricted. There are on going reforms in the civil service to retrench non-performing employees while providing more formal and on-the-job training to enhance productivity. Several government departments have been identified as candidates for privatization, and efforts are being made to contract for some government services. The budget for 1997-98, which projected a widening in the overall surplus to 4% of GDP, reflected a considerable expenditure restraint.

A number of public enterprises, notably the Air Botswana and Botswana Housing Corporation have recently been restructured, while a significant portion of the Botswana Development Corporation and the Botswana Telecommunication Corporation have been privatized and operate increasingly on a commercial basis. These reforms and the reduced availability of government loans have led to important improvements in the financial performance of the public enterprise sector.

In the financial sector, since 1991, the monetary authorities have relied on sales of Bank of Botswana certificates and the bank rate as the main instruments of the monetary policy. Measures to absorb up excess

liquidity in the economy have contributed to considerable moderation in the growth of domestic non-government credit and, since 1992, a declining trend in inflation. Other important reforms have included the passage of the new Banking Act (1995), the Botswana Stock Exchange Act (1996). These new laws provide an updated legal framework that will facilitate financial sector development.

A study of Botswana's strategy in the 1990s which was introduced in the wake of the economy's poor performance as diamond sales plummeted shows that the country has opted for more involvement of the private sector in the economy than had always been the case. The realization by the Botswana government to have a private-sector-led economy is important for the country if it is to achieve sustained growth. Of course, other African countries could have done likewise; however, there must be an environment of peace, characterized by political stability and democratic, participatory forms of government for private-sector-led economy to thrive. Without these, investors are normally unwilling to risk their investments. And as discussed earlier, Botswana has met these conditions whereas other African countries have failed.

One of the interesting aspects of Botswana's switch from a government led economy to a private-sector economy

is the timing of the switch. The change in strategy was initiated as soon as it was found that the economy was no longer doing well. African countries have had the problem of taking too long to discard failing policies. Zambia under President Kaunda for example, stuck to its nationalization policy for a very long time, even though the strategy was failing. By the time the new government of Chiluba took over and its privatization strategy, a lot of drawbacks had been; corruption, which usually goes hand-in-hand with government-led economies, had to be dealt with first; infrastructure had been inadequately developed; poverty had risen greatly.

The government of Botswana has long recognized that the capital-intensive nature of large mining developments limits their potential to generate employment. It also recognized that the diamond boom would not continue indefinitely and that any downturn would have serious effects on the economy. The "National Development Plan" Seven was devised to expand other industries, such as manufacturing, services and tourism. This plan relied mainly on exports expansion, which this meant that Botswana products had to be diversified to respond to demand in world markets. It also meant that products had to penetrate regional and overseas markets more widely. While government

institutions, such as the BDC, established the solid foundations of Botswana's economy, it is the private sector that will drive it forward from now on. The BCD's divestment program was started in 1994, during which its high-performing stock was disposed of.

Botswana chose very much the same strategy as the rest of sub-Saharan countries, but survived the commodity market collapse in the 1970s due to its vast diamond resources. Furthermore, the advice that Botswana received from donors was not very different from what other aid recipients received, in spite of a very different economic and political setting. Botswana did, however, not listen very much to external advice, but followed its own development strategy assisted by donor-funded expatriates who appear to have identified themselves more with Botswana than with funding agencies. Though the emphasis on a government-led economy was found to have been a strength in the past, in the present situation it may well be a liability as the mineral and government growth is about to run out of steam.

Mineral sector and government expenditure have been engines of growth in the economy. Botswana however, found the need to revisit its economic strategy as soon as it discovered that the economy was experiencing a downturn. It did not wait for the economy to register negative growth

rates before it started reforms. And I contend that the timely introduction of a new more effective strategy was crucial to the sustenance of economic growth. A look at most African countries shows that most of them by the time they started opening their economies to more private sector involvement, much damage had been done, which then meant they first had to struggle with the recovery period. For Botswana however, as the economic growth fell to a level of 4% growth in 1992, from the usual 10% growth rate, because of a fall in diamond sales, the authorities decisively found the need for policy alterations. Hence the efforts to diversify the economy, which called for more private-sector involvement in the economy.

### **C. BOTSWANA'S ECONOMIC PLANS FOR THE FUTURE**

Botswana's development efforts since independence have been to raise the standard of living of the people of Botswana. This development is guided by four objectives, namely rapid economic growth, economic independence, social justice, and sustainable development. These principles still hold today and for the future. Botswana has a strategy being implemented through an "Action Plan" that is monitored as part of the National Development Plan. The main thrust of the "Action Plan" is the introduction of new

innovative approaches to achieve the integration and conservation of natural resources into the development process. Long-term planning perspectives are based on four pillars: human resources development, sustainable use of natural resources, sustainable economic growth and diversification, and timely policies, management and decision making combined with democracy, a free market economy and political stability.

The Eighth National Development Plan whose theme is "Sustainable Economic Diversification," is the government's current plan for the next two years. It reflects concerns about the continued high dependence on the diamond sector and efforts to exploit regional opportunities to foster a dynamic export-oriented private sector. As indicated by the Vice President and Minister of Finance and development planning, the plan commits the authorities to continue prudent macroeconomic policies and promote an environment conducive to economic diversification, employment creation, and poverty alleviation. Botswana also aims to emphasize privatization, which is interpreted to mean increasing the private sector's participation in the economy, as measured by its relative share vis-à-vis government in the generation of income and employment. The 2000 budget speech, however, warns that privatization needs to be

implemented with caution and yet with determination to move forward in order to achieve the benefits of sustainable economic diversification and employment creation in the long term.

#### **D. ECONOMIC CONDITIONS FOR THE FUTURE**

For the foreseeable future, Botswana's economy depends on the success of the mineral industry. The diversification program that is underway will only be effective with time. One industry which has a great potential for the country is tourism. Measures are being taken to develop the industry. To nurture its economy into the future the country, needs to watch the following factors carefully:

**Corruption:** The country will have to guard against corruption which is slowly finding its way into the economy of Botswana. Of late the government through the parliament has been passing motions which are questionable. Ever since independence Botswana politicians have been known to be cautious of government expenditure. But since the 1990s there have been projects which the politicians are pursuing solely for their personal interests. Examples include the controversial expensive housing for members of parliament; the "vehicle subsidy scheme"-which initially was wholly

granted. Under the scheme, members of parliament could buy themselves cars. The scheme was later revised to a 50% loan and a 50% grant after the public expressed its shock at the scheme. Another example is that after politicians and public servants' salaries were reviewed in 1998, politicians had an increment of 35% and public servants an increment of 15%. Only this year in March, parliamentarians passed yet another motion calling for an "urgent" review of their salaries again. Some of the arguments for the motion were particularly discouraging. One member of parliament argued that unlike some of his colleagues, who opposed the motion, he had been working at a low-paying job. If this attitude is going to persist Botswana is going to follow the rest of Africa and eventually the economy will be totally drained..

**AIDS Epidemic:** The other issue that is most likely to cripple Botswana's economy is the AIDS epidemic. Botswana is experiencing some of the fastest rates of HIV infection in the world.<sup>52</sup> According to the 2000 budget speech HIV/AIDS prevalence in Botswana is very high, at about 17% of the adult population. This has serious ramifications in

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<sup>52</sup> <http://www.healthnet.org/programs/procaare/conferences/indexbot.html>

terms of increased demand for health services, which will, in turn, put pressure on the health budget. Unless the country succeeds in curbing the spread of AIDS, it is conceivable that the disease will reduce the skilled human resources. And this will have serious consequences for productivity and lead to considerable deterioration in the general social indicators.

**Political Conditions:** At present there is no reason to suspect that Botswana's internal politics will be unstable in the near future. There seems to be a sense of abiding and accepting defeat by Botswana politicians after each elections. Yet some people have wondered if the ruling BDP would accept defeat in the event that it experienced one in the elections. However, one may recall that in the 1994 general elections the BDP lost around 35% of the seats. The BDP leadership acknowledged that the electorate was expressing its dissatisfaction with the party, which meant they were not meeting the public's needs so they needed to get to establish the problem. I feel this was a sign of a party which will be prepared to hand over power willingly once the majority does not need it.

When one predicts Botswana's political situation in the future, they need to consider mostly what is happening with

its neighbors politically. First to be considered would be Namibia. There has been a number of Namibians entering Botswana to seek political asylum. The Namibian government however has not seen these people as genuine political asylum seekers and accuses Botswana of harboring its enemies. Botswana is caught in a dilemma because it argues that these people are genuine refugees and in accordance with the United Nations it should accord them refugee status. This is a potentially dangerous situation because it provides all the excuses for Namibia to declare a military engagement on Botswana. And the war will only drain the economic development of both countries and the region as a whole.

The other unfortunate situation is the current land crisis in Zimbabwe. The situation has now reached a point where the court rulings are being ignored, not only by the people of that country, but by the leaders as well. There have been clashes of the opposition political party members with the ruling party. Unless something very dramatic is done, Zimbabwe seems to be heading for a civil war. Obviously a war in Zimbabwe will also have an adverse economic impact on Botswana.

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## VI. CONCLUSION

That Africa is a continent with unfortunate natural geographical disadvantages which have acted as a hindrance to economic development is unquestionable. First, most African countries are in the tropical regions and this has played a role in handicapping the economies.<sup>53</sup> Because of these tropical conditions, there have been such diseases as malaria and hostile conditions for agriculture. The adverse climate has caused poor health and as a result reduced life expectancy below that of other regions of the world, which put Africa at a disadvantage in development. The adverse climate also led to eroded soils and unreliable rainfall, which constrained African agriculture. The continent of Africa also has the highest number of land-locked countries and this has proved to make trade with overseas nations costly.<sup>54</sup> The natural disadvantages of the African continent were however, not made any better by some of the African autocratic and dictator leaderships.<sup>55</sup> Lessons can be learned from the Botswana leadership, for the men who took over the government at independence never displayed any

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<sup>53</sup> Collier and Gunning, "Why Has Africa Grown Slowly?"

<sup>54</sup> Ibid.

<sup>55</sup> Ibid.

intentions of holding onto power forever. They were prepared to step down in the event that the electorate did not need them any longer. Because of this, they were motivated to deliver or else they would lose their political power through the ballot. They put the economic growth of the country ahead of their personal interests. On the contrary most of Africa's internal political turmoil has been because of leaders who wanted to cling to power forever, even when the majority of the people they wanted to lead lost trust in them. To achieve these personal goals, such leaders eliminated any opposition and made unwise military expenditures to use the armed forces to safeguard their power. During the 1970s, both political and economic matters in Africa deteriorated. Just after most African countries had finally obtained their independence in the 1950s and 1960s, Africa's future looked bright. Political self-determination in Africa and economic growth seemed to be proceeding hand-in-hand.<sup>56</sup> The poor management of African economies also inhibited the success of African countries. For African countries to survive economic challenges, emphasizing competent management of economic institutions, as evidenced in the

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<sup>56</sup> Ibid.

case of Botswana, is essential. Because of a sound management of the country's resources by the public sector, accountability was always there and incidents of corruption minimized.

Injudicious policies also have had their share in declining the economic growth of African Countries. Though the policies were put into use with the hope that they would work, it took African countries long periods to abandon the failing policies before choosing alternatives. Government led economies do not necessarily lead to failures, as shown in the case of Botswana. This however, is only true if the strategy has been well set. Measures should be in place to be efficient. Productivity should be emphasized, wise expenditures and a sense of responsibility and accountability should be upheld. The contention here is that though government-led economies might not be better as compared to market-led economies if they are managed correctly they should never lead to some of the poverty that is prevailing in Africa.

In short a stable political environment, appreciation of external aid and its good use, sound management, and a prompt response to changing economic requirements has allowed Botswana to do well economically.

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